Stakeholder Comments Template

Submitted by	Company	Date Submitted
Jaime Rose Gannon Jaimerose.gannon@cpuc.ca.gov 415-703-2818	California Public Utilities Commission	8/28/2017

Please use this template to provide your written comments on the stakeholder initiative "Capacity Procurement Mechanism Risk-of-Retirement ("CPM ROR") Process Enhancements."

Submit comments to InitiativeComments@CAISO.com

Comments are due August 28, 2017 by 5:00pm

The Revised Straw Proposal posted on August 8, 2017 and the presentations discussed during the August 15, 2017 stakeholder conference call can be found on the CPM ROR webpage.

Please use this template to provide your written comments on the Revised Straw Proposal topics listed below and any additional comments that you wish to provide.

Energy Division Staff (hereafter, "ED Staff" or "Staff") appreciates the opportunity to comment on the revised straw proposal and provides some high level comments upfront before commenting on each of the specific areas in the provided template.

The CAISO should not make CPM ROR determination prior to the annual RA procurement process. As indicated in prior comments on the Issue Paper, ED staff remains concerned that moving a CAISO Risk-of-Retirement determination to a date prior to the year-ahead filing deadline could result in front running the current RA procurement process.

The CAISO should revise its proposal to highlight the connection between the RMR process used by Calpine for resources at risk of retirement and the CPM ROR enhancements being proposed. In its issue paper the CAISO stated:

> "The limitations of the current CPM risk-of-retirement process were recently highlighted in March 2017 when there were two peaking plants owned by the Calpine Corporation that were at risk of unplanned, early Retirement and were needed for reliability. The CAISO Board of Governors authorized the CAISO to procure the two plants using the CAISO's Reliability Must-Run ("RMR") tariff provisions, rather than the CAISO's CPM backstop risk-of-retirement tariff provisions, because of specific process conditions in the CPM risk-of-retirement tariff. The only viable option was to use an RMR designation, rather than procure the two plants using the CPM risk-of-retirement backstop procurement provisions."[1]

This cited example appears to be one of the main motivations for changing the CPM ROR tariff. However, the revised straw proposal does not mention this example. This highlights a gap in the logic and the need to change the current ROR CPM mechanism. It also raises the question of why a generator would use the proposed ROR CPM mechanism when a less stringent mechanism (RMR) appears to be available.

If the RMR tariff allows generators, such as Calpine, to request studies of need, why would a generator opt to use the ROR CMP mechanism, which requires them to sign an affidavit attesting they will retire? The CAISO should explain how the proposed changes to the ROR CPM mechanism would minimize and/or eliminate incentives for generators to use the seemingly less stringent RMR process.

As CAISO footnoted in its issue paper, "The CAISO prefers to use a CPM designation rather than an RMR designation in risk-of-retirement situations such as the March 2017 Calpine case as the CAISO has been moving away from using RMR since the creation of the RA."[2] However, the straw proposal does not appear to prioritize CPM over RMR. It does not even mention it.

It is also worth noting that the current draft NQC list[3] includes both King City Energy Center and Wolfskill Energy Center. These are two of the four resources Calpine had requested be studied for a reliability need through the RMR process. The CAISO found that these resources were not needed for reliability.

ED staff is concerned about bringing this proposal to the Board of Governors in November 2017. Many implementation and tariff provisions need additional clarifications and discussion (e.g. can generators include capital additions and major maintenance in their proposed costs).

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[1] May 10, 2017 CAISO Risk of Retirement CPM Issue Paper pp. 4
[2] May 10, 2017 CAISO Risk of Retirement CPM Issue Paper pp. 4 (footnote 3)
[3] http://www.caiso.com/Documents/NetQualifyingCapacityList-2018.xlsx

1. Who Can Apply

Comments:

In its May 2017 Issue Paper, CAISO states:

"The current CPM risk-of-retirement tariff allows only resources that are not under an RA contract to request CPM risk-of-retirement procurement. This requirement limits the scope of resources that can apply. For example, in the case of the two Calpine plants that were authorized in March 2017 to receive RMR designations, both plants are under an RA contract until the end of 2017."[4]

In its August 8, 2017 Revised Straw Proposal, the CAISO states that there "has been a general belief that resources cannot apply for a CPM ROR designation while they are RA, but a close reading of the tariff shows there is no such express requirement."[5]

ED Staff has no objection with the CAISOs clarifying that any resource, including a resource that is currently RA, can apply for a CPM ROR designation.

2. Timing of Requests for Designation - Windows

Comments:

In its revised Straw Proposal, CAISO adds an additional application window, allowing generators to apply for a CPM ROR designation. The proposal states that this window will occur in April, allowing "Type 1" and "Type 2" resources to apply. ED Staff does not support the addition of the April window. Adding an April window to the CPM ROR process will front run the annual resource adequacy procurement process.

Additionally, the CAISO added two conditions to the April window. These conditions do not mitigate ED Staff concerns regarding front running RA procurement.

One of the additional conditions is that the generator must demonstrate that their costs are above the CPM soft offer cap. The current language of the Straw proposal does not indicate whether capital additions can be included in the demonstration generators are being required to submit. Specifically, the CAISO's draft tariff language says that for a "Type 2" Risk of Retirement designation the resource must demonstrate "that it is unlikely to be procured as resource adequacy for the next compliance year because its annual fixed revenue requirement

[4] May 10, 2017 Issue Paper pp.7
[5] August 8, 2017 Revised Straw Proposal pp. 5

calculated in accordance with Schedule F to the pro forma RMR agreement in Appendix G of the CAISO Tariff exceeds the price specified in the Section 43A.4.1".[6]

In response to parties' comments regarding the inclusion of major maintenance costs, CAISO states it,

> "has removed the major maintenance costs example from the four examples of what could be submitted for the April application window as documentation to prove that a resource is not likely to be procured as RA. Maintenance costs can be included in the price pricing formula for how costs are to be determined using the Annual Fixed Revenue Requirement for a RMR Unit as set forth in Schedule F to the pro forma RMR agreement in Appendix G of the CAISO tariff."

Reading Schedule F to the pro forma RMR agreement, it was ED Staff's understanding, that capital additions would not be included in the cost calculation. Major maintenance would appear to fall into the category of capital additions. However, after further discussion with CAISO staff, ED Staff now understands that capital additions can be included in the costs, as long as they are completed in the same year that the generator has applied for a CPM designation. For example, if a generator applies for a "Type 2" CPM ROR in April 2017, and includes capital additions in its cost of service, those capital additions would have to be completed no later than December 31, 2017.

ED Staff does not support the inclusion of major maintenance capital additions in the cost calculation. The CAISO needs to make the inclusion of capital additions clear in its straw proposal and stakeholders need an opportunity to comment on this aspect of the proposal, if this is the actual interpretation of the inclusion of capital additions.

The second condition is that the CAISO must find that the resource is the only resource that can fill the identified need. It is unclear to ED Staff what reliability criteria and assumptions that CAISO will use in determining its need. For example, will the study use a 1 in 10 load forecast for system need, what criteria will be used for flexible need, what assumptions will be made regarding imports, demand response and outage management. Staff requests more details on the assumptions that will flow into the CAISO's determination of need. This is further discussed in Section 11 below.

3. Process for Study and Procurement

Comments:

[6] August 8, 2017 Revised Straw Proposal pp. 21

With regards to the study process and procurement, CAISO states it will retain the three steps listed in the current tariff. ED Staff requests that the current tariff be revised to require more granular details in the CPM reports. Transparency is very important to stakeholders, and currently the CPM designation reports[7] are not very detailed and do not provide sufficient information to fully understand why a resource was designated. The reports should include the applicable reliability criteria, load and resource assumptions as well as contingencies. It should also include the WECC reliability criteria requirement (if applicable) that the CAISO is complying with. Reports should also include the total cost of the designation and whether those costs include any major capital additions (and over how many years the capital addition costs are being amortized).

In its August 8, 2017 Revised Straw proposal, the draft tariff language of 43A.2.6 b states that

> "[t]he deadline for the first window will be no later than June 30 of each year..." [8] The draft tariff also states that the CAISO will issue a report no sooner than 30 days from the applicable window and allow stakeholder no less than 7 days to submit comments on the report. Finally, the draft tariff states, "[f]or type 2 CPM Risk of Retirement Designation, the CAISO will allow no less than six months from the comment date for an LSE to procure Capacity from the resources."[9]

The timing defined in the tariff does not seem to make sense. If the window closes on June 30th, CAISO posts the report (no sooner than) 30 days later, and parties have 7 days to comment, that puts us at August 8th. LSEs then have 6 months to procure the capacity, which puts us at February 8th. Wouldn't the timeline need to end prior to the end of the year in order for the resource to be designated for that year? Also, the timing provided in the draft tariff would not allow for any RA credits to transfer to LSEs prior to an LSE making its year-ahead procurement. This would lead to over-procurement in the year ahead time frame.

4. <u>Application Requirements, Timelines and Reliability Studies</u>

Comments:

See comments in Sections 2 and 3.

5. <u>Selection Criteria when there are Competing Resources</u>

Comments:

ED Staff has no comment at this time.

[7] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=6B413850-85A2-42A8-8C45-8F23A3B7E91E

[8] August 8, 2017 Revised Straw Proposal Pp. 18

[9] August 8, 2017 Revised Straw Proposal pp. 19

6. Term and Monthly Payment Amount

Comments:

ED Staff has no comment at this time.

7. Cost Justification

Comments:

The Revised Straw Proposal states that,

> "The pricing formula costs are being determined using the Annual Fixed Revenue Requirement for a RMR unit as set forth in Schedule F to the pro forma RMR agreement in Appendix G of the CAISOs tariff."[10]

It is ED Staff's understanding that Schedule F to the pro forma RMR agreement in Appendix G, does not include major maintenance (capital additions). If this understanding is accurate, then Staff is fine with using Schedule F to the pro forma RMR agreement to determine costs.

If major maintenance is allowed under Schedule F to the pro forma RMR agreement, then Staff objects to the inclusion of major maintenance in the cost.

8. Decision to Accept

Comments:

ED Staff has no comment at this time.

9. Cost Allocation

Comments:

CAISO proposes no change to the current tariff, which states that if the CAISO makes a ROR CPM designation it will allocate the costs "to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for CPM designation arose."[11]

ED Staff has concerns with this language. Specifically, Staff is concerned that the cost allocation being proposed is inconsistent with the current cost allocation for flexible reliability need. Flexible reliability is for the entire CAISO system and allocated to each Local Regulatory Authority. CPUC allocates the flexible requirements to LSEs using system load ratios. If the CAISO makes a CPM ROR designation due to a flexible system need (as was the case for

[10] August 8, 2017 Revised Straw Proposal pp. 16
[11] August 8, 2017 Revised Straw Proposal pp. 16

Calpine's Sutter resource[12]), then the costs should be allocated to all LSEs based on their system load ratios, not TAC area load ratios.

10. RA Credits

Comments:

The CAISO proposes no changes to its current tariff which states,

> "The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows: to the extent the cost of CPM designation under Section 43A.2.6 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.7, and the designation is for greater than one month under Section 43A.3.7, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.6."

ED Staff does not believe the current language is sufficient to allow for RA credits to transfer to LSEs in a timely manner sufficient to avoid other RA procurement that would have been offset by the credit. LSEs need to have these credits transferred to them in advance of making RA purchase agreements with generators so that it can accurately calculate its RA obligation.

The CPUC has a CAM mechanism that it uses to allocate resource capacity credits/debits based upon the costs allocation of these resources. The CPUC allocates IOUs a debit equal to the aggregate credit allocated to ESPs and CCAs in its service territory. In exchange for the higher RA requirement (debit) the IOU can show the entire CAM resource on its RA plan. This allows the CAISO to see the resource in its CIRA system and to apply the scheduled outage maintenance rules. RMR resources do not flow through this mechanism. CPM resource would not be able to flow through this mechanism because the IOUs would not be able to show this resource in its RA plan.

ED Staff proposes that the tariff language be changed to provide the CPM credit to the LRA for allocation to the LSEs. A CPM credit mechanism would have to be incorporated into the CPUC's annual RA process.

[12] http://www.caiso.com/Documents/2012-01-26_ER12-897_Sutter_Pet_TariffWaiver.pdf
http://www.caiso.com/Documents/Basis_Need_CapacityProcurementMechanismDesignation_SutterEnergyCenter.pdf
Resolution E-4771 pp.3

11. Other Comments

Please provide any additional comments not associated with the topics listed above.

Comments:

ED Staff requests that more clarification on what exact reliability criteria the April and November study will be looking at and what assumptions will be used for each reliability need. For example if the study is looking at system peak needs will it be using a one-in-two load forecast, for flexible need what assumption will be made about the flexible framework and market conditions. How will demand response resources be counted in the assessment?

CAISO states that it has provided a description of the reliability study that it will perform for each three designation types. The revised Straw Proposal specifically states that,

> "The CAISO technical study will determine whether the resource will be needed for reliability purposes, e.g., location or operation characteristics, by the end of the calendar year following the compliance year in which the resource would receive a CPM ROR designation, and that no new generation is projected to be in operation during that period that could meet the identified need." [13]

Staff does not believe that CAISO has adequately explained its reliability study. Specifically, Staff would like to know what assumptions the CAISO will make about resource retirements, load, and transmission projects. These types of assumptions can have a large impact on the outcome of a reliability study.

[13] Revised Straw Proposal pp.11